

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Honda Analyst: Colin Stevens Bill Number: AB 579

Related Bills: See Prior Analysis Telephone: 845-3036 Amended Date: 5/25/99

Attorney: Patrick Kusiak Sponsor:

SUBJECT: Business Expense Deduction/Costs of Making Computers and Software Y2K compliant

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

X FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED FEBRUARY 19, 1999, STILL APPLIES.

OTHER - See comments below.

SUMMARY OF BILL

Under the Personal Income Tax Law (PITL) and Bank and Corporation Tax Law (B&CTL), this bill would allow taxpayers a deduction of up to \$20,000 in addition to the amount specified under Internal Revenue Code (IRC) Section 179. The additional deduction would be allowed for the purchase or modification of computer software to replace software that is not year 2000 (Y2K) compliant or for the purchase of a replacement computer system where replacement is made necessary by Y2K computer conversion problems. The additional deduction would apply for taxable years beginning on or after January 1, 1998, and before January 1, 2000, for property placed in service in 1998 or 1999.

SUMMARY OF AMENDMENT

The May 25, 1999, amendments:

- Limit the application of this section to taxable years beginning on or after January 1, 1998, and before January 1, 2000, and to property placed in service during 1998 or 1999;
- Provide that no deduction under this section may be claimed if the taxpayer has claimed another exclusion, deduction or credit with respect to that item;
- Provide public purpose language to declare the reason this bill is necessary; and
- Provide a repeal date of December 1, 2000.

The changes described above resolve the policy concerns related to a difference between calendar and fiscal year taxpayers, the need for public purpose language, and the ability to claim the tax benefit allowed by this section in addition to others. Discussed below is an implementation concern related to the style in which the bill is written, as well as a technical concern related to a sunset date.

Board Position:

<u> </u> S	<u> </u> NA	<u> </u> NP
<u> </u> SA	<u> </u> O	<u> </u> NAR
<u> </u> X N	<u> </u> OUA	<u> </u> PENDING

Department/Legislative Director Date

Johnnie Lou Rosas 6/15/1999

A new revenue discussion also is provided below. Except for the items described above, the department's analysis of the bill as introduced February 19, 1999, still applies. The remaining implementation and technical concerns are provided below.

Implementation Considerations

This bill would allow taxpayers to deduct in the year placed in service the cost of computer systems, computer software, and related modifications needed to make computer systems and computer software Y2K compliant. For taxpayers who have already completed their 1998 tax return, which is filed in 1999, this would require that the taxpayer file an amended return and that the department process those returns. The difficulty to administer this bill would largely depend upon the number of taxpayers who elect to amend their returns based upon this bill.

Technical Considerations

Under the B&CTL, this bill attempts to allow the expensing of costs of making computers and software Y2K compliant. However, since the B&CTL does not currently conform to IRC Section 179, this bill's attempt to modify portions of that section, without first incorporating it by reference or otherwise into the B&CTL, would have no legal effect. For the bill's provisions to apply to the B&CTL, either the B&CTL would need to conform to IRC Section 179 (at least for this limited purpose) and adopt the modifications proposed in this bill, or stand-alone language would need to be written. Department staff is available to assist the author's office with necessary amendments.

Tax Revenue Estimate

The revenue impact of this bill is estimated to be as follows:

Estimated Revenue Impact			
For 1998 and 1999 Expenses			
Enactment After June 30, 1999			
(In Millions)			
Fiscal Years			
1999-0	2000-1	2001-2	2002-3
-\$10	\$3	\$4	\$3

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this proposal.

The changes made by the May 25, 1999, amendment would not significantly change the department's previous estimate of this bill as introduced February 19, 1999, due to rounding and the small percentage of projected fiscal year filers that would be impacted by the May 25, 1999, amendment.

BOARD POSITION

Neutral.

At its March 23, 1999, meeting, the Franchise Tax Board voted to take a neutral position on this bill as introduced.